

EXHIBIT 13

November 30, 1992

OVERVIEW OF CONSIDERATIONS AND FOLLOW-UP
BY THE BNL TASK FORCE IN THE
CONDUCT OF THE BNL RELATED INVESTIGATIONS

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IN RESPONSE TO JUDGE LACEY'S REQUEST OF NOVEMBER 16, 1992, THE FOLLOWING SUMMARY WAS PREPARED REGARDING ASPECTS OF THE INVESTIGATIONS CONDUCTED BY THE BNL TASK FORCE¹

The Task Force exists to conduct criminal investigations. Over the years of its existence numerous matters and leads were pursued, involving many potential defendants, targets or subjects, who were identified during review of events occurring at BNL-Atlanta. With all of the recent criticism, it must be remembered that the Task Force was established to uncover evidence of criminal violations arising out of transactions at BNL-Atlanta and, when warranted, to present those facts at judicial proceedings.

This report provides some background information about the Task Force, as well as some of the major topics pursued as part of the BNL investigation. The report gives a broad overview of various areas considered by the Task Force, with greater detail provided about several more complex areas. For example, a few areas requiring more detail include the method by which funds were obtained from the money market, the disbursement of funds on behalf of Iraq, and the involvement of others in the scheme.

Examples will be used in describing the areas of concern or the criminal acts, rather than citing every instance or detailing every piece of evidence that relates to the category or to the event. Thus, limited reference will be made to source documents. Details of that nature are available in "Analysis Of The United States Attorney's Office For The Northern District Of Georgia's And The Atlanta-BNL Task Force's Handling Of The BNL Investigation" and the "Analysis Of United States Attorneys Office For The Northern District of Georgia's And The Atlanta BNL Task Force Response To Judge Shoob's Tentative Conclusions". Those reports, which respond to the criticisms of the government's handling of the BNL

¹This analysis was prepared under extreme time constraints. Accordingly, the BNL Task Force reserves the right to revise this submission. This document was a collective effort and does not reflect the recollection or personal knowledge of any one person.

investigation and to Judge Shoob's tentative or preliminary findings, are incorporated by reference into this report.

BACKGROUND

The initial information about the activities at BNL-Atlanta was received by the United States Attorney's in the Northern District of Georgia during July 1989. On July 26, 1989, two BNL employees, Ms. Mela Maggi and Ms. Jean Ivey, were identified by their attorneys as the individuals who had come forward with information regarding criminal activities at BNL-Atlanta. As a result of the information and follow-up by the government, a search warrant was executed at the offices of BNL-Atlanta on August 4, 1989.

The FBI, with technical assistance provided by Federal Reserve examiners, conducted the search of the BNL-Atlanta offices. Simultaneous to the search in Atlanta, other activities affecting BNL offices were happening elsewhere. Within the United States, the Federal Reserve had assembled examiners to enter each of the other four BNL offices after the BNL-Atlanta office was secured by the FBI during the search. Those examiners who entered the other four offices had been given an outline of the type of illegal activities ongoing at BNL-Atlanta. In the examinations conducted at the four U.S. branches, no evidence of similar activities was uncovered.

Additionally, senior members of the Board of Governors for the Federal Reserve travelled to Italy and sought the assistance of their counterparts at the Bank of Italy. As a result, the Managing Director of the Bank of Italy summoned the Chairman and General Manager of BNL to a meeting late on August 4, 1989. It was at that meeting, occurring almost simultaneous with the execution of the search warrant in Atlanta (approximately 10:30 p.m. in Rome, Italy), that BNL top management was made aware of the allegations about the BNL agency in Atlanta. Those senior BNL officials immediately sent management personnel and inspectors from BNL-Rome to Atlanta.

In addition, officials at BNL-Rome worked over the weekend borrowing and transferring millions of dollars to BNL-New York in response to the Federal Reserve's concerns about the liquidity of BNL and possible disruption of the New York interbank payment system. BNL also worked with the Central Bank of Italy to arrange for back-up lines of credit. Thus, the borrowed funds and the lines of credit, totaling over one billion dollars, were available Monday, August 7, 1989, to forestall any "run" on BNL by lending banks that might have occurred if and when news of the activities in Atlanta became public.

Immediately after the search of BNL-Atlanta offices, representatives from numerous supervisory and regulatory banking

agencies began examinations of BNL-Atlanta. These agencies included the Federal Reserve Board, the Federal Reserve Bank of New York, the Federal Reserve Bank of Atlanta, the Georgia State Department of Banking and Finance and the Central Bank of Italy.

It was during those first weeks following the search that the United States Attorney's Office for the Northern District of Georgia brought together members of various law enforcement agencies, supplementing those agencies initially involved in the pre-search investigation, and forming what is known today as the BNL Task Force. The investigative members of the Task Force were consequently able to learn from the various bank examiners on the scene the activities which had been uncovered to that point. These examiners also provided background, training and expertise in banking procedures, particularly international banking practices.

TASK FORCE AGENCIES

Representatives from the following six agencies formed the nucleus of the present day Task Force: Federal Bureau of Investigation (FBI), Federal Reserve Bank of Atlanta, United States Department of Agriculture's Office of Inspector General (USDA-OIG), Internal Revenue Service (IRS), United States Customs Service (Customs) and Defense Criminal Investigative Service (DCIS) (the investigative section of the Department of Defense Office of Inspector General). Over the course of the investigation the composition of the Task Force changed, both in the agencies represented, as well as in the number of personnel from each agency. Since September 1989, five of the six agencies, with the exception being DCIS, had representatives detailed to the Task Force. In addition to the core agencies, information and assistance was obtained from numerous other governmental agencies having particular expertise in areas under investigation. A few of the agencies that fall into this latter category include the Export Import Bank of the United States (EXIM Bank), the Office of Foreign Asset Control (OFAC) and the Trade Security Policy section (DTSA) for the Office of the Deputy Under Secretary of Defense.

Reasons for the Task Force approach included the participation of BNL-Atlanta in government programs (USDA funded and guaranteed programs) and potential criminal violation of a wide variety of federal statutes, including, wire and mail fraud, false statements to the government, money laundering, tax offenses, export violations and trading with the enemy act violations. Thus, the agencies assembled for the Task Force had primary investigative jurisdiction over certain of the categories of crimes or the agencies had specific interest in the programs affected by the activities at BNL-Atlanta.

A. FBI

Since the basic allegations involved fraud the FBI was

involved from the outset. The first FBI agent assigned to the Task Force had twenty years experience with the FBI, conducting fraud investigations. In addition, he was a Certified Public Accountant (CPA) and the Senior Agent on the Fraud Squad in the Atlanta FBI Office. Upon that agent's retirement, another Senior FBI Agent with experience in financial fraud investigations, who also is a CPA, was detailed to the Task Force. Subsequently, a financial analyst and two additional FBI special agents were added to the Task Force.

B. FEDERAL RESERVE

Several Federal Reserve examiners participated in the early phases of the investigation, including the search of BNL's offices. One Senior Bank Examiner from that group was detailed to the Task Force. He brought to the Task Force over eight years experience at the Federal Reserve conducting and reviewing examinations of foreign banks. In addition, he has extensive training and education in international finance including a Masters Degree in Business Administration with a concentration in International Business and Finance.

C. USDA-OIG

The concerns about criminal conduct and abuse involving USDA funded and guaranteed programs were many and varied. The possible criminal violations considered ranged from the making of false statements and the creation of false documents, through bribery of foreign government officials. Prior to the search at BNL-Atlanta, USDA-OIG participated in debriefing Ms. Maggi and Ms. Ivey. Subsequently, one USDA-OIG Senior Special Agent was assigned full time to the Task Force. Two additional Special Agents from USDA-OIG soon joined the Task Force, and, for approximately two years, a USDA-OIG Auditor was assigned as well. The Auditor, in addition to being a CPA, had previously worked for the IRS as a Revenue Agent.

D. IRS

The IRS representation on the Task Force also increased over the course of the investigation. Initially, one Senior Special Agent with over eighteen years experience with the IRS was assigned. Later two other Special Agents and a Revenue Agent joined the IRS group. In addition to their expertise in the tax aspects of the investigations, IRS had extensive experience in working money laundering cases.

E. CUSTOMS

In the early days of the investigation, Customs had one Senior Special Agent working on the Task Force. Later two other Special Agents augmented the Customs team on an as needed basis. The

primary matters pursued by Customs involved potential export violations, allegations of violations of trading with the enemy act or acting as unregistered foreign agents.

F. DCIS

The involvement by DCIS in the Task Force was limited to the early months of the investigation. One Special Agent assisted in the review and collection of documents in the BNL-Atlanta letters of credit files describing equipment shipped to Iraq. In turn, these materials were provided to representatives of agencies within the Defense Department, who reviewed them for any potential violations of non-proliferation agreements or export regulations.

INVESTIGATION

This multi-faceted investigation was caused by the numerous areas of concern, the large number of potential subjects, the uniqueness of the situation, and the varied types of criminal violations. A vast amount of the Task Force's investigative effort was directed at understanding how transactions involving extremely large amounts of money initially committed, later obligated, and ultimately disbursed from BNL-Atlanta could have occurred and, of course, what individuals and/or institutions were involved in the activity. Many of the questions thoroughly and exhaustively examined by the Task Force are now being asked by others, who have not reviewed the documents, have not conducted the witness interviews, have no investigative expertise or have not extensively debriefed the co-conspirators.

INVESTIGATIVE ACTIVITY

Over a three year period, an extensive investigation has been conducted by the Task Force, far beyond that which has been made public through judicial proceedings or by Congress. Over 250 grand jury subpoenas have been issued during this investigation. In addition to documents obtained from sources in the United States, documents were obtained from seven foreign countries by way of treaty requests, letters rogatory or voluntary production. Hundreds of thousands of documents have been obtained and analyzed, a process that consumed a significant percentage of the investigative resources. Furthermore, hundreds of interviews have been conducted of individuals with knowledge of the scheme and others, including co-defendants, employees at BNL-Atlanta, loan beneficiaries, experts from various fields, and other law enforcement authorities.

In addition to those documents obtained from BNL branches and offices worldwide, documents were obtained from many other sources. Within the United States, for example, copies of records from other banks were obtained to trace funds disbursed by BNL-Atlanta or received by the various defendants. Some of these records

confirmed that false representations were made by BNL-Atlanta employees to conceal their activities from auditors, regulators and management. Records from dozens of other sources within the United States were obtained which established the use of funds diverted from BNL-Atlanta by the defendants, dates of foreign travel of various individuals identified in the investigation, and links between various defendants and others associated with the illegal activity. Some of the types of documents obtained included telephone records, sales invoices, credit card receipts and invoices, audit reports and the underlying work papers, shipping documents and rental agreements.

CONSIDERATIONS AND CONCERNS

The following are a few of the many areas of concern investigated by the Task Force. These areas were also of concern for the Department of Justice attorneys, other government officials, the Italian authorities and the examiners from the various bank regulatory agencies.

Many of the points discussed below are ones that have been raised by Congress, the media, the Court and others. The Task Force members had those very same questions when they became involved in the investigation. They asked the same question about how these things could have occurred without someone at BNL-Rome being involved. The issues raised by the media, the Court or Congress are not new or first being raised by these later day observers, but rather these are questions that plagued everyone looking into this case. However, unlike the recent critics, the Task Force investigated the allegations and then came to its conclusion on the basis of that investigation. The Task Force concluded that none of the facts, standing alone or in combination, credibly supported a conclusion that BNL itself or higher-ups at BNL were involved in criminal activity.

The following areas are topics of concern to the Task Force. They are not organized by priority or chronologically, and by no means do they represent an all-inclusive list of concerns or of areas investigated. The last section of this report, "Major Areas of Inquiry", also discusses some investigative considerations and concerns while detailing the investigation into certain issues.

A. Commitments made by Drogoul

One area of concern to the Task Force members and the bank regulatory examiners was determining precisely what commitments had been made by Drogoul. Given the duplicity in the bookkeeping at BNL-Atlanta and the fact that as the scheme progressed Drogoul was committing and loaning money, without any documentation, by telephone conversation, everyone was interested in determining the exact amount of BNL-Atlanta commitments outstanding.

During August and September 1989, the Task Force, bank regulators and BNL officials attempted to identify or document suspected commitments. Some of the commitments that Drogoul had acknowledged after the search were allegedly verbal commitments he had made to various exporters. These verbal commitments apparently exceeded \$100 million. The most significant commitment that was still in question, however, was a written agreement between Drogoul and the Iraqis known as "MTL IV" -- in the amount of \$1.155 billion. Although this agreement was supposedly signed in April 1989, a copy could not be located in BNL-Atlanta's offices nor did Drogoul produce a copy from his own records. Adding to the uncertainty about MTL-IV was Drogoul's vacillation regarding when, where and by whom this agreement had been signed. It took about a month for a copy of the MTL IV agreement to surface. It was made available by fax from Iraq to BNL and, ultimately, the Task Force.

B. Where money was transferred

Another major area of concern identified early in the investigation and relentlessly pursued by the Task Force involves the ultimate destination of the money transferred at the instruction of BNL-Atlanta employees. The largest amount of money transferred in one category involves approximately \$800 million transferred to bank accounts in the United States that were controlled by the Central Bank of Iraq (CBI). This money was disbursed under the MTL agreements Drogoul had with the Iraqis, specifically as part of verbal agreements known as "Option B" and "Option C". Due in part to the commingling of this money with other funds held in the respective accounts and the circuitous route through which the money was then transferred to overseas accounts, it has been very difficult, if not impossible, to identify the ultimate destination for most of that money.

Another category of monies transferred primarily involved unsecured loans made to Rafidain Bank. A few examples of loans which raised the greatest suspicion include: approximately \$40 million in direct transfers to Rafidain for what was known as "Thai Rice"; tens of millions of dollars for "Freight Financing" transferred to Amman Resources; and approximately \$4 million disbursed to a company known as Compaigne European de Sud (COMSUD) which is owned in part by Drogoul. For further discussion of other topics in the two preceding paragraphs see the "Major Areas of Inquiry" section of this appeal.

Another major category of fund transfers can be identified as those disbursed on behalf of Entrade International Ltd. (Entrade). It is under this category that in excess of \$957,000 was transferred from BNL-Atlanta to Luxembourg as kickbacks for Drogoul, Von Wedel and Tezeller. Furthermore, there were suspicious transfers made to Entrade ranging from several million dollars to a low of about \$20,000. In one instance transfers

equalling approximately \$6 million were made from BNL-Atlanta funds to Entrade, funds which ultimately were returned to BNL-Atlanta in a circuitous manner and placed on deposit purportedly as Entrade collateral. Entrade and BNL-Atlanta represented this money as Entrade funds when, in fact, it was BNL's money. In another instance, \$1 million in BNL-Atlanta funds were transferred to Entrade who in turn sent the funds to a BNL-Atlanta borrower in Hawaii. That individual used the majority of the \$1 million to "repay" a \$950,000 loan he had previously received from BNL-Atlanta. In other instances, smaller amounts, approximately \$53,000 on one occasion and later \$20,000 on another occasion, were transferred from BNL-Atlanta to Entrade accounts in New York. This money was a reimbursement to Entrade for payments it had made on behalf of Drogoul and other BNL-Atlanta employees for unauthorized travel and expenses.

C. Possible suspects and subjects

This Task Force's major purpose was, and is, to investigate what individuals and institutions committed federal offenses and, if appropriate, seek charges against them; specifically, who, in addition to the employees at BNL-Atlanta, have criminal complicity or involvement in the scheme. Today, as in the beginning of the investigation, leads indicating involvement of others were and are being pursued. But, unlike the press, Congress and others, who do not have a burden of proof to establish guilt beyond a reasonable doubt, or do not have the rules of evidence to contend with -- admissible evidence sufficient to obtain and sustain a conviction rather than speculation is the requirement of the Task Force. In each of the below listed groups varying amounts of speculation, information and/or evidence exists regarding each individual. In those instances where sufficient admissible evidence exists to consider criminal charges, prosecutorial decisions and actions have occurred or are in progress.

One group of individuals consists of employees of BNL outside of the BNL-Atlanta office. There have been allegations against regional managers for the North American region, headquartered in New York City. There are additional allegations involving former employees of BNL-Atlanta. There were also allegations against various officials in BNL-Rome. In a later section of this report, details will be provided about some of the allegations and follow-up investigations regarding individuals in this group.

Another group whose activities were of particular interest to the Task Force involved Iraqi government officials and employees. Several Iraqi officials are defendants in the Drogoul indictment. Two of those officials, Abdul M. Rasheed and Sadik H. Taha, are Iraqi bank officials, while two other individuals, Safa H. Al-Habobi and Raja H. Ali, are officials associated with the Iraqi Ministry of Industry and Military Production. Other Iraqis have been identified as unindicted co-conspirators in U.S. v. Drogoul.

Some of those individuals, and, others not named, are still the focus of related and follow-up investigations by the Task Force.

There is still another category of individuals and business entities whose knowledge and involvement in the scheme were examined by the Task Force. Examples in this category include Entrade and Entrade's former Executive Vice President, Yavuz Tezeller. Entrade and Tezeller are co-defendants in U.S. v. Drogoul. In addition, inquiries were made into the criminal involvement of other exporting companies, banks, and freight/transport related businesses.

Another broad area of individuals and companies investigated involves potential criminal conduct or abuses affecting the USDA foreign agricultural sales and loans programs, principally the CCC guarantees programs. In this area our interest focused on the involvement of not only BNL-Atlanta employees but exporters and buyers as well. Contrary to allegations in the press and by defendants, the activities and possible involvement with BNL-Atlanta of several major grain exporters have been under active investigation by the Task Force. The details of those investigations and, in some instances, the existence of the investigation were not disclosed to those without a need to know as it might jeopardize the on-going investigation.

Besides looking at allegations of kickbacks or bribes by exporters to the Iraqi officials or bank employees, several other areas were of major concern. One of these areas deals with the possible barter by the Iraqi officials of agricultural commodities obtained through the CCC programs. Another area of concern was diversion of the CCC guaranteed products either at the third country port where it was being off-loaded (e.g., Turkey or Jordan) or as it was being shipped over land to Iraq. As certain exporters appeared to be favored by the Iraqi buyers, concerns about collusion between the exporters and buyers surfaced. Consequently, inquiries were made in an effort to determine whether the commodity prices guaranteed under the program were inflated, and if so was this done to cover bribes or kickbacks paid by the exporters to Iraqi buyers. In addition to the above-mentioned areas of concern relating to CCC, leads were pursued involving allegations that non-U.S. origin commodities were shipped under these CCC programs including the possible substitution of lower quality product or less expensive ingredients in the protein meal or protein concentrate commodities. More details about these issues appear in the "Major Areas of Inquiry" section of this report.

MAJOR AREAS OF INQUIRY

Time and resource constraints preclude a full description of all the leads pursued, documents obtained and people interviewed during the course of this three year investigation. Consequently, details will be provided for only some of the more significant

topics pursued in the investigation resulting in the U.S. v. Drogoul indictment.

A. Could BNL-Atlanta commit the scheme without BNL-Rome involvement.

One of the major areas investigated by the Task Force, and continually reexamined as new evidence is uncovered, involves the process and the procedures the BNL-Atlanta employees used to carry out the disbursement of billions of dollars on behalf of the Iraqis and others.

The investigation uncovered numerous factors that contributed to the employees of BNL-Atlanta carrying out their activities without alerting BNL management or government regulators of their unauthorized activities. One main factor was the existence of a "money desk" in the BNL-Atlanta branch. This allowed BNL-Atlanta officials to obtain funding directly from the world money market, funds which were necessary to cover the loans made by BNL-Atlanta, without going through BNL-New York. Another area that is linked to the money desk, involves the excellent bond rating BNL had at that time. BNL had a "Triple A" (AAA) rating designated by Moody's and other rating services. This placed BNL in one of the most favorable categories other banks used in determining levels of interbank lending.

Investigation into the existence and activities of the money desk at BNL-Atlanta included, not only the interviews of employees within the branch and interviews of employees at the four money brokers houses engaged by the BNL-Atlanta money trader, but also the review of records from various sources. The BNL-Atlanta money trader, Mela Maggi, stated that the existence of the off-book operation and BNL-Atlanta's operating without authority was hidden from the representatives of the money brokerage firms as well as from bank management and others. Interviews with representatives from the money brokerage firms in New York confirm Ms. Maggi's statements. Plus, the brokers explained that BNL-Atlanta's use of multiple invoices for internal reasons was the norm, rather than the exception, for their various clients. Testimony given by Mr. William Duffy of Prebon Umoni, USA, in the September 1992 sentencing hearing, for example, speaks to many of the points discussed with various trading houses. In particular, he mentions that BNL-Atlanta was not an exceptionally large client of their brokerage firm, even though BNL-Atlanta borrowed what can be considered significant sums of money to those working or reviewing this investigation.

Additional evidence supporting the statements of Ms. Maggi, Ms. Ivey and others that the scheme was concealed from BNL is found in the Peat Marwick audit work papers. For example, on one occasion the Peat Marwick auditors noted substantial borrowings from the world money market evidenced by invoices from the New York

money brokerage firms, however the amounts did not appear on BNL-Atlanta books. In concealing the truth about those borrowings from the auditors, officials from BNL-Atlanta prepared false letters purportedly sent to the brokerage firms pointing out that the brokerage firms had inadvertently charged BNL-Atlanta for borrowing that went to other BNL branches in North America.

Other evidence that the borrowings were hidden from management and regulatory officials is illustrated by the manner in which Drogoul had Ms. Maggi borrow the money to prevent detection. First, she would always borrow in increments below the threshold that could trigger inquiries by the lending institution or an oversight agency. Secondly, she made certain that if she borrowed from one bank or institution, then in any future borrowings from that institution the money would be channeled to the same "book" she had funded in the past. Thus, any inquiry to an on-book funding source would not reveal "off book" transactions. Further, as larger daily funding requirements occurred she would borrow from three different markets.

As pointed out previously, the AAA bond rating is tied to the existence of the money desk. Interviews with the bankers and experts in the field, confirmed that banks active in interbank lending, review the creditworthiness of other banks and set predetermined lending levels and rates that they will offer borrowing banks. This process of assessing risk is handled by a department (separate from the department that actually lends the funds) within each of the lending banks. Once an assessment of a potential borrowing bank is made, decisions are reached on an upper limit of how much that borrower can receive and the best interest rates (or spread) that can be offered. In this assessment, significant weight is given to ratings published by the acknowledged rating services. In BNL's case, since they enjoyed the highest rating given by those services, it consequently was offered the best interest rates and high borrowing limits.

Additional factors contributing to the scheme involved the employees at the BNL-Atlanta and their respective personalities. For example, all of the employees in BNL-Atlanta were co-opted to varying degrees to help conceal the unauthorized activities from BNL management, auditors and regulators. Changes of regional managers at BNL-New York occurring between 1986 and 1989 also contributed to the failure to detect the scheme. There were three managers during that period, two of whom retired. Moreover, at the time of his plea hearing and in all of his statements with the government prior to his sentencing hearing, Drogoul admitted that he had defrauded BNL and denied that his activities had been authorized or approved by BNL-Rome. The documentary evidence as well as statements of BNL-Atlanta employees also confirm that Drogoul orchestrated the "off book" borrowing and lending under all three regional managers.

That virtually every employee in BNL-Atlanta was a witting participant in the concealment of BNL-Atlanta's activities was confirmed principally through interviews. All BNL-Atlanta employees present on August 4, 1989, were interviewed, most providing detailed information that confirmed Ms. Maggi and Ms. Ivey's previous statements about other employees' involvement. Follow up interviews with numerous other witnesses corroborated this fact. During all of the interviews it became clear that Drogoul was very selective in what information he shared with any given employee, including the ones with the most knowledge about the scheme. Even in the case of Drogoul's most trusted employees, no one other than Drogoul knew of all aspects of his activities. In fact, each of his most trusted employees had varying degrees of knowledge about different aspects of the scheme. Those employees who had the least involvement in the activities were told only what they needed to know to carry out their day-to-day activities and help in the concealment. For example, the receptionist, who had very limited knowledge of what exactly was going on in the organization, was told to provide false information to callers regarding the whereabouts of Drogoul and other officers when they were travelling out of their normal travel territory.

Another element relating to personnel matters involves the changing of the regional managers during the scheme and how it impacted BNL-Atlanta's operation. The regional manager who was present when Drogoul was appointed as the Branch Manager retired in July of 1987. His replacement, although technically the manager until April 1989, was not physically present on the job during that entire period. In his most recent testimony at the September 1992 sentencing hearing, that manager stated his presence as regional manager was actually in the range of 14 or 15 months. Furthermore, in the latter months of his tenure (early 1989), he was on vacation pending retirement. This time period is important when analyzing the lack of follow-up by regional management on the audit done by the BNL internal auditors in 1988.

B. Investigation of other BNL-Atlanta employees

Another significant aspect that was investigated by the Task Force relates to others within the BNL system who were involved in the unauthorized lending. There has been vast speculation by many regarding this topic. Some of those who were employees within BNL-Atlanta as of August 1989 have provided information and speculation as to various BNL officials' possible involvement in this scheme. Contrary to press reports and representations made by others on this topic, the Task Force has pursued allegations against BNL officials and will seek criminal charges if sufficient evidence exists to support such action.

Thus far, there have been two BNL-Atlanta former employees against whom the largest amount of evidence exists regarding their possible involvement in or knowledge of the unauthorized lending.

As recently as the debriefing of Drogoul in August 1992, the evidence of those individuals' involvement was investigated. These two individuals are mentioned because they represent individuals who are BNL employees working outside of BNL-Atlanta who might have had involvement in the scheme while at BNL-Atlanta.

Remembering that knowledge that a crime occurred is different from active participation in the furtherance of that crime, so far insufficient evidence exists to support prosecution of the former Atlanta employees for complicity in the scheme. In reaching this determination not only were there interviews of the employees of BNL-Atlanta -- including the defendants who are now cooperating with the government -- there was also a thorough review of records in an attempt to document acts in furtherance of the scheme. Both individuals were subordinate to Drogoul and participated in the scheme, if at all, to a much lesser degree than other BNL-Atlanta employees charged in U.S. v. Drogoul. Drogoul was also questioned about their activities while at BNL-Atlanta, during his 1992 debriefing. Drogoul told of certain actions one of the men made which would have contributed greatly to the body of evidence against that person, but Drogoul has since withdrawn his cooperation and has repudiated many statements he made previously. However, as previously stated, this part of the investigation is open and ongoing.

Much has been written about allegations that senior officials outside of BNL-Atlanta had involvement or knowledge of the unauthorized activities. Rather than detailing each individual now alleged by the media or Congress to be involved in Drogoul's scheme, what the Task Force did in its investigation of those allegations, and the results of those inquiries, the following summary is provided. At this time insufficient evidence exists to warrant criminal prosecution of any of these individuals here or in Italy.

From the very beginning of the inquiry, interviews were conducted to determine what evidence supports the allegations about regional managers in BNL-New York, staff officers in BNL-Rome, plus the General Manager and the Chairman of the Board of BNL knowing and participating in the scheme. Allegations regarding these individuals generally consisted of "should have known" or "could have known", rather than admissible evidence from individuals with first-hand knowledge of criminal complicity within BNL. Nevertheless, all those people known to the Task Force who made such allegations, were interviewed. In the instances where their information was based on statements made by others, those other people were, in turn, contacted and interviewed. For example, each and every employee at BNL-Atlanta has been interviewed and, while they will speculate about BNL-Rome officials' knowledge, none had first hand knowledge of BNL-Rome complicity. To the contrary, each had received their information about alleged BNL officials' knowledge of the unauthorized activities from Drogoul. During over

three years of statements to the Task Force, bank officials, and U.S. regulators, his own attorneys, and the Court, Drogoul denied he was authorized or directed by anyone including BNL-New York or BNL-Rome to engage in any unauthorized transactions, which are subject of the present indictment, and, he acknowledged that he consistently lied about his activity to those at BNL-New York and BNL-Rome to conceal these transactions. It was not until he took the stand with his fifth set of attorneys, that he made statements that senior officials in Rome approved his off-book and unauthorized lending practices in BNL-Atlanta.

In addition to interviewing those individuals who speculated or alleged that BNL officials were aware or participated in the unauthorized loans, other individuals were interviewed who could have confirmed what knowledge certain officials possessed. In particular, questions were asked of Entrade employees regarding former BNL regional manager Renato Guadagnini's knowledge of the scheme. Those employees confirmed that Guadagnini was not involved or knowledgeable of any of the unauthorized activities between BNL and Entrade. Further, during his work at Entrade, Guadagnini was kept from seeing documents or being involved in Entrade transactions which could have made him aware of the BNL-Atlanta unauthorized activities.

Interviews were also conducted with the BNL officials against whom these allegations were made. Copies of their sworn testimony given to the Italian Senate Committee have also been obtained and carefully reviewed.

Documentary evidence confirms that BNL management was insistent that Drogoul obtain written authorization even for transactions where BNL assumed no risk. Document review also revealed that BNL consistently refused all unsecured lending to Iraq during the scheme period. This was BNL's position despite getting bombarded in Italy and elsewhere with Iraqi requests for loans, sometimes as small as \$2,000.

Finally, the Task Force reviewed telexes, letters, faxes, audit reports, audit workpapers, internal memoranda among the BNL-Atlanta employees, and documents from other BNL branches to determine if there was any evidence to support the allegation that any higher-ups at BNL condoned, knew, or authorized Drogoul's activities. Rather than supporting such allegations, the documents corroborated the testimony of the BNL officials that they were not involved in or knew of the unauthorized activities at BNL-Atlanta. Examples of documents reviewed during the investigation illustrate the point. These documents are helpful in understanding what certain BNL officials knew about BNL-Atlanta's activities versus

what Drogoul now contends the BNL officers knew.²

Another group of documents that counter the defendant's allegations are telexes during August through December 1988. These contain Drogoul's representations to his superiors about BNL-Atlanta having cash collateral from CBI to cover letters of credit BNL-Atlanta had issued or would issue in the future.

In addition to the documents and the testimony outlined above, a whole series of documents were located which show the extent to which the BNL-Atlanta employees went to conceal their activities. These documents include telexes and faxes to BNL officials in which the BNL-Atlanta employees lied about certain facts which, if the truth had been known, would have revealed the scheme to those BNL officials. Other documents in this group include false entries into the BNL-Atlanta books and records, false documents relating to transactions, as well as the altered records hiding the truth about a transaction.

C. BNL-Atlanta funding of loans

The process by which BNL-Atlanta obtained funding for the unauthorized as well as the authorized loans was analyzed by the Task Force and bank regulators. The concept of one bank borrowing from another bank to fund the borrowing bank's operations is a routine practice. The importance of having the "money desk" at BNL-Atlanta which was necessary to obtain that funding, rather than having to go through BNL-New York to borrow money was mentioned previously, and cannot be overstated.

Part of the investigation by the Task Force included determining the funding process employed at BNL-Atlanta, and what was known by others about this process. In addition to discussing the mechanics of the system reviewed by the various banking regulators and examiners, numerous interviews were conducted and thousands of documents analyzed. The interviews with Ms. Maggi provided the best overview of the whole procedure that supported the on-book and off-book operations at BNL-Atlanta. Other co-conspirators, Drogoul included, spoke about the money desk and its operations in far more general terms than did Ms. Maggi. Additional interviews conducted on this particular subject included representatives from the various money trading firms with whom BNL-Atlanta had dealings, and officers with other international banks.

Of the documents that were reviewed, the internal memorandum maintained in BNL-Atlanta was the most significant. This

²A summary of the documents and the documents assembled in that package have previously been provided under the file name "Danieli." Later in this report Danieli is discussed with a summary and a chart furnished as an enclosure.

memorandum included handwritten forms reflecting money purchases and varying codes the BNL-Atlanta employees used to identify whether the funding was to cover on-book or off-book loans, and if the latter, whether it went to Rafidain accounts or CBI accounts. Other internal documents included maturity schedules for the off-book activities that were maintained in the operations section of the BNL-Atlanta branch and spiral bound notebooks maintained by Ms. Maggi that identified the correspondent banks from whom money was borrowed and whether that money was used in either the on-book or off-book funding. A group of documents relevant to the funding process and also evidencing the extent to which the BNL-Atlanta employees went to conceal this scheme, were found in work papers from Peat Marwick. As mentioned previously Peat Marwick had reviewed invoices from the money brokerage firms in New York and compared the amounts shown on those invoices against the borrowings reflected in BNL-Atlanta's books. In making the comparison, auditors discovered approximately \$100 million worth of transactions in excess of what was shown on the real books. In responding to the auditors' inquiry about this conflicting information several false letters reportedly sent to the money brokerage firms were prepared. Those letters listed the various amounts found as discrepancies by the auditors and indicated the brokerage firms had inadvertently charged BNL-Atlanta accounts for monies borrowed by the other BNL offices in North America. Those letters asked that the charges appearing on the respective invoices be deducted from BNL-Atlanta's bills and charged to the appropriate BNL office which had borrowed those funds. Based in part on the letters, plus statements from the BNL-Atlanta employees, the Peat Marwick auditors accepted this explanation and did not note the situation as a discrepancy in their report or verify this information with BNL-New York.

The results of the Task Force's inquiries into the funding process confirm that the BNL-Atlanta employees could and did fund their activities, both on-book and off-book, without involving others in the BNL organization or in the money market. To conceal the funding activities BNL-Atlanta employees went to great extremes, not only in lying and preparing false documents, but also in modifying internal procedures to prevent detection of certain aspects of their illegal operation and expanding the number of banks they borrowed from as their need for funding increased.

As indicated earlier, BNL-Atlanta obtained its funding principally through four major money brokers in New York or to a lesser extent directly from a few banks. To further reduce the concentration of the funding activities, the money trader bought funds in three major markets. To accomplish this, calls to brokers were made early in the morning for funding from the London market. Calls during the regular business day resulted in funds offered on the New York market. And, in the late evening, funds were obtained from the Far East markets. In addition to these efforts to prevent detection, the amounts sought in any one request

were kept below levels that could draw attention to the transaction due to the size. Contrary to the speculation by some sources about the size of the borrowings that would occur on a daily basis, the highest day was probably in the range of \$600 million. This was definitely an exception and not the rule for funding in one day. In the week shortly before the search, the amounts sought from the market were more and more often being funded with overnight funds. This was in contrast to the longer term funding (generally up to about 6 months) that was the optimum available to the money trader.

The amount of money that was borrowed each day was driven by two factors. One involved the maturity of previously acquired funding (in other words, the due date for prior fundings). The second factor was the funding required to cover new loans that were being made. Thus, the combination of funding to cover maturing funds plus funding required to cover new loans was the total that the money trader had to borrow to cover a day's disbursements.

D. Disbursement for and to Iraq

Transfer of funds by the BNL-Atlanta employees is another area that was reviewed in depth by the Task Force and the bank regulators. Funds transfers are communicated through electronic instructions initiated from the BNL-Atlanta branch, over secured communications lines, directing the movement of money from BNL-Atlanta accounts with other banks. The principle account from which money was moved in this manner was an account maintained by BNL-Atlanta at Morgan Guaranty of New York City. For the most part, the Morgan communication system, known as "MORCOM" was the primary vehicle by which instructions were transmitted from Atlanta to New York causing these transfers.

A variety of documents were found inside BNL-Atlanta's offices which related to these instructions. In addition to handwritten forms, machine generated forms detailed the instructions. One of these documents was a confirmation made contemporaneous with the sending of a transfer instruction over the MORCOM system, and another was a hard copy confirmation of that transaction on MORCOM stationery. In addition to these documents, there were numerous internal bank transaction records relating to the above mentioned forms, which gave varying amounts of detail about each transfer.

Still other documents relating to the wire transfers were obtained. Numerous interviews were also conducted regarding the procedures employed to transfer the funds and to confirm the receipt of the transferred monies.

With regard to the funds transferred under the loan agreements with Rafidain Bank which were guaranteed by CCC, BNL-Atlanta directed those funds to the beneficiaries or exporters. This meant the funds did not go into Rafidain Bank or any Iraqi controlled

account before being disbursed to the exporter. Furthermore, there was no need for a reference to appear in the electronic message regarding Iraq or the Rafidain Bank. Under these agreements, between 1985 and 1989, BNL-Atlanta transferred approximately \$1.25 billion to exporters holding CCC guaranteed loans.

For the most part, other transfers done by BNL-Atlanta on behalf of Rafidain Bank and another Iraqi commercial bank, Rasheed Bank, for non-CCC guaranteed loans, were also sent directly to the companies. One noted exception is where funds were transferred to Rafidain Bank, not to exporters, in what became known as the "Thai Rice" transaction. In that transaction, \$40 million was disbursed -- in \$5 million and \$10 million increments -- directly to Rafidain Bank which in turn allegedly used the money to purchase rice from Thailand. This unusual procedure started in April 1988 after Drogoul had initially agreed to finance an Iraqi purchase of rice from Thailand, using a BNL-Atlanta letter of credit and loaning the money to cover the purchase, as an off-book or "grey book" loan. But, when the rice supplier made it known to numerous banks in Asia that a letter of credit from BNL-Atlanta would be forthcoming, Drogoul opted to advance cash directly to Rafidain rather than have the BNL-Atlanta letter of credit for this unauthorized lending surface and raise questions.³

Unlike with the Rafidain and Rasheed Banks, over sixty percent of the transfers Drogoul made to CBI under the medium term loans agreements (MTLs) were deposited directly into CBI accounts. Of the approximately \$1.3 billion disbursed under these MTLs prior to August 7, 1989, over \$800 million, went directly to CBI clearing accounts. These direct transfers were the results of verbal arrangements between Drogoul and the Iraqis, known as "Option B" and "Option C". Over \$673 million of the \$800 million were "Option B" transfers, with the balance of \$107 million being "Option C" transfers.

The referenced clearing accounts were held by the CBI in four U.S. banks, all in New York City. Consequently, when money was transferred from the BNL-Atlanta account in Morgan Guaranty for deposit to the CBI accounts, the transfer instruction linking BNL-Atlanta to CBI was entirely domestic (i.e., within the United States). For example, if BNL-Atlanta transferred \$36 million from its account in Morgan Guaranty to a CBI account in Manufacturers Hanover Trust Co., the original electronic communication of this transfer instruction was initiated in Atlanta and sent to Morgan Guaranty in New York City. In turn, Morgan Guaranty transferred \$36 million from BNL-Atlanta's account to the CBI account at Manufacturers Hanover. With respect to the remaining fund transfers made on behalf of CBI (approximately \$536 million), these

³This arrangement with Rafidain Bank is the precursor to what later became known as "Option B" transfers to CBI, under the MTLs.

transfers were made directly to United States and foreign companies. In this regard, these transfers were similar to those described in the Rafidain and Rasheed Bank transactions, in that the money transfers did not go through the Iraqi bank accounts.

E. CCC Program Act at BNL-Atlanta

The CCC guaranteed loans held by BNL-Atlanta were of particular importance to the Task Force. Initially the loans formed the basis for Drogoul to establish business dealings with Rafidain Bank, the major commercial bank in Iraq. The concealment method known as "slippage" and later the early gray book activities, were carried out to conceal unauthorized loans to Rafidain Bank in Iraq, the majority of which were covered by the CCC guarantees. Besides those general areas of interest in the CCC guaranteed loans, the Task Force was specifically concerned about possible criminal violations directly affecting the CCC programs.

Leads were pursued regarding misuse of the monies by Iraqi government officials, BNL-Atlanta employees, or U.S. exporters. The first category, involving allegations or suspicions of wrongdoing by the Iraqis, presented an investigative challenge.

The most difficult area relating to Iraqi officials has been referred to by different groups as "barter" or "diversion". Briefly, this activity alleges the Iraqis exchanged quantities of agricultural commodities, obtained under the CCC programs, to other countries for non-agricultural goods. The inquiries into this facet of the investigation have included document reviews, a letters rogatory request for assistance to a foreign country, as well as coordination with other agencies which might have information or leads. As indicated, this is an ongoing investigation.

One facet of this particular line of inquiry has resulted in pleas from exporters who gave in to demands from the Iraqi government buyers for equipment, parts and supplies, or more in what has become known as "after-sale services" investigations. Additional "after sale services" investigations of exporters are ongoing to date.

Inquiries were also made into the possibility that exporters paid bribes to Iraqi government officials and that this could constitute foreign corrupt practice violations. Although there were suspicions that Iraqi officials benefited personally from several transactions funded through BNL-Atlanta, currently insufficient evidence exists to return indictments in those situations. To have possibly crossed the threshold of evidence required for such indictments, testimony or assistance from certain exporters, their agents, or defendants in the Drogoul case would have been necessary. Prior to Drogoul's recent guilty plea debriefing, it appeared that payments by exporters were received by

government entities rather than individuals. During his debriefing Drogoul related information about possible additional payments to foreign officials by exporters already under Task Force investigation. However, Drogoul is no longer willing to cooperate with the ongoing investigation.

With regard to the inquiries into potential illegal payments by exporters who received CCC guaranteed loans, insufficient evidence exists to warrant charges of this nature. Investigative efforts continue in the pursuit of other leads regarding these potential violations, despite Drogoul's apparent repudiation of his statements in this regard.

The activities of the BNL-Atlanta employees relevant to the CCC guarantees held by that agency were reviewed at length. While reviewing the records found in BNL-Atlanta, drafts of false CCC guarantees were found. These documents included handwritten entries on altered guarantee forms, guarantee forms that were blank except for the title and signature of the CCC official, and included other false records that supported the altered guarantee forms. In reviewing BNL auditors internal audit workpapers, copies of the completed false CCC certificates were found. Interviews with codefendants who have pleaded guilty and are cooperating with the government confirmed the preparation of these false documents and the presentation of them to the auditors.

The facts regarding the overall activities of Drogoul and other coconspirators in the acceptance of assignment of loans guaranteed under the CCC program were analyzed. Of particular importance were the Iraqi loans guaranteed under these programs. Some statistical information is helpful in understanding the situation. Between 1985 and 1988 Drogoul committed, in written agreements, that BNL-Atlanta would lend Iraq approximately \$1.89 billion. Of that amount BNL-Atlanta actually funded approximately \$1.25 billion. As of August 4, 1989, in excess of \$700 million of this \$1.25 billion was outstanding. Between the August 1989 search and the Iraqi invasion of Kuwait, in August 1990, that outstanding balance was reduced by Iraq to approximately \$347 million. The Iraqis started defaulting on all CCC loans, including those held by BNL-Atlanta, when they invaded Kuwait.

Several other banks had also accepted assignment of CCC guarantees for Iraq, especially in 1989 when BNL-Atlanta began its multibillion dollar unsecured funding of Iraq and thereafter upon scheme detection. As a result, a total of approximately \$2.01 billion in principal and interest payments due from Iraq on CCC guaranteed loans is outstanding as of the invasion of Kuwait. Thus, upon Iraqi default, BNL-Atlanta held \$347 million of the \$2.01 billion guaranteed by CCC that is still outstanding.

As uncovered during the course of the investigation, Drogoul's last written agreement with Rafidain Bank to cover CCC guaranteed

loans was signed in October 1987. That agreement covered guarantees issued by CCC for fiscal year 1988. It was in September 1987 that Drogoul signed a memorandum of intent with Sadik Taha, whereby Drogoul agreed to extend CBI \$200 million in unsecured lending. It was not until February 1988 that Drogoul formalized this commitment -- signing what is now referred to as "MTL 1". Disbursements against that agreement did not begin until November 1988, after the end of the 1988 CCC fiscal year. This shift from CCC guaranteed lending to unsecured lending to CBI marked a significant change in Drogoul's arrangements with the Iraqis, and was a reason Drogoul did not help fund the fiscal year 1989 CCC program for Iraq.

F. Bribes and kickbacks

The whole area of bribes and kickbacks, regardless of who was receiving or seeking the bribes, was of constant interest to the Task Force. As mentioned previously, the kickbacks sought by the Iraqi government officials from agricultural exporters was and continues being pursued. In addition to the kickback allegations relating to the CCC guaranteed loans, information was developed that the procurement network controlled by Safa Al-Habobi routinely sought fees from companies providing projects or equipment funded under the MTLs. Leads were pursued regarding those U.S. suppliers who had agreed to pay fees negotiated by members of the network. The evidence disclosed that several companies were accruing amounts on their books for ultimate disbursement to Al-Habobi, and that in one instance a company had actually transferred monies as part of this side agreement. In that instance the monies were transferred through banks in the Isle of Man and England, thus disguising the origin and destination of the money. The ultimate destination and/or use of the money transferred, or of any other monies obtained by the network under these agreements, is unknown. However, realistically any monies obtained through this process pales by comparison to the funds transferred to the CBI clearing accounts in New York -- funds which could not easily be traced to its ultimate destination. Of the \$800 million transferred to those accounts, approximately 20% was traced, after much investigative effort, to its ultimate destination. The balance, in excess of \$600 million could have gone to any use that the Iraqis chose and is, to date, untraceable.

Rather than describing every instance where someone may have obtained money or personal gain as a result of the activities at BNL-Atlanta, the following discussion will concentrate on the areas of greatest interest and those involving the larger amounts of money. Beginning with employees of BNL-Atlanta, the two BNL-Atlanta officers receiving the most were Drogoul and Von Wedel. The monies that went to Von Wedel totalled approximately \$340,000, all from Entrade. Much has been written, including references in the indictment, detailing these payments. As part of an agreement between Drogoul, Von Wedel and Yavuz Tezeller, they split

approximately \$957,000 among themselves. Von Wedel received \$290,000 from this arrangement, which he used to purchase a home. Subsequently, Von Wedel received an additional \$50,000 from Tezeller.

From the review of documents, interviews, tracing of monies through bank accounts, letters rogatory and treaty requests, and foreign depositions, evidence regarding monies received by Drogoul from Entrade was collected. In addition to Drogoul's share in the aforementioned exceeding \$150,000 agreement, he also received direct payments from Entrade accounts in the United States and millions of dollars in deposits to accounts in Europe. The deposits to the accounts in Europe were the most significant. These accounts, owned jointly by Drogoul and Tezeller, received deposits in excess of \$7 million, described by Entrade/Enka representatives as bribes paid to Drogoul. In addition to those monies, (and the above mentioned \$957,000) \$4 million was deposited into the account of one of the companies owned by Drogoul and Tezeller, COMSUD. The \$4 million was the total of two transfers made by BNL-Atlanta to COMSUD, for what was purportedly a sale of steel by COMSUD to Iraq. This particular loan was one of a unique category of loans Drogoul made for alleged sales to "quasi-Government" agencies in Iraq. This category of loans also included over \$40 million in loans sales made by Entrade to the same type of agencies. All of the loans (to both COMSUD and Entrade), in this category immediately went into default as they matured. It is in this category of loans that the Entrade/Enka representatives report that 15% of the loan value on each of those sales made by Entrade -- and immediately discounted by Drogoul -- was transferred to the European accounts which Drogoul co-owned.

Other leads regarding bribes and kickbacks which were pursued by the Task Force include other allegations involving sales to Iraq; bribes to government officials in a North African country; and possible attempted bribery of officials in a South American country.

Task Force investigation continues in one instance where kickbacks and bribes are suspected as part of a sale covered under the MTL's. If one of the potential defendants in that case cooperates and has evidence of Iraqi officials receiving personal gain, indictments could be sought for foreign corrupt practice act violations.

There is another case involving allegations of abuse of official position and attempts to obtain personal gain from companies participating in government programs by a former USDA staff employee. This investigation was unrelated to any of the defendants or crimes in the U.S. v. Drogoul indictment, but was uncovered as a result of another collateral investigation initiated by the Task Force. This latter case is ongoing, and a decision has not been reached regarding what, if any, criminal charges will be

recommended.

G. Internal and External Controls

An aspect of this investigation which impacts on several issues is that of internal and external controls in place at BNL-Atlanta. This is an area where those outside of the Task Force have incorrectly speculated about the significance of certain facts or events; for example, the "powers of attorney" given to the officers in North American Agency and Branches. Those not familiar with the circumstances contend that these powers of attorney gave unlimited authority to Drogoul. When all of the documents relating to those powers of attorney are reviewed and analyzed, and when the officers whose names and signatures appear on those documents are interviewed, it is apparent the lending limits imposed by BNL-Rome policy and all applicable government regulations apply with equal force to the North American officers.

As part of the investigation, the Task Force learned that BNL did have a system of controls set forth in its internal regulations. These internal controls included, among other things, the separation of responsibilities in each branch or agency, internal audit programs, annual external audits and cooperation with government regulatory examinations.

Further, more extensive discussions of the issue of internal control appear in the prosecution memorandums of 1990, and most recently in the report entitled "Analysis of the United States Attorney's Office for the Northern District of Georgia's and the Atlanta-BNL Task Force's Handling of the BNL Investigation". Those reports detail investigative activity pursued to determine what controls BNL had instituted and exercised.

Some of the highlights from those earlier Task Force reports speak to issues considered by the Task Force. BNL-New York and BNL-Rome received numerous reports from external auditors and government regulators who had reviewed the activities of BNL-Atlanta during the scheme period. These reports were reassuring to BNL's management regarding BNL-Atlanta's compliance with the bank's internal controls. The Task Force made a comparison between the audit program of BNL and those of other foreign banks doing business in the southeastern United States. That comparison revealed that BNL's audit procedure, including both internal and external audits, was well above average of those required by other foreign banks.

Besides neutralizing the internal control related to the separation of duties within the agency, it was discovered that BNL-Atlanta employees presented a united front in concealing the existence of their unauthorized activities from all auditors. To this end, numerous false documents were found in the auditors workpapers as well as references to false representations made

verbally by the BNL-Atlanta employees to those auditors and examiners.

Numerous instances, which have been documented at length in previous submissions to Judge Lacey, were uncovered in the review of BNL-Atlanta's books and records regarding the concealment of the unauthorized and off-book activities. By concealing these activities BNL-Atlanta negated the effectiveness of the BNL internal control that applied to credit lines above the authority of agency and branches. So rather than seeking authority from New York and Rome for commitments above the authority extended to BNL-Atlanta, Drogoul concealed the amounts he had disbursed over his authority in various ways culminating with what is now known as the "grey books".

H. Danieli and Other Foreign Beneficiaries

There have been numerous leads pursued regarding allegations that BNL officials "knew" of Drogoul's unauthorized agreements with Iraq and the off-book funding operations, as a result of certain transactions BNL-Atlanta handled for foreign companies. One of these "transactions" which has received the greatest publicity and notoriety is known as the "Danieli" transaction. The Danieli enclosure describes how this was not a single transaction, but rather two contracts for sales by Danieli to Iraq. The referenced enclosure provides details of these two contracts and a chronology of the financial arrangements discussed between Drogoul and the Iraqis; contrasted with what BNL officials in Italy and Danieli company officials knew about the financing of these transactions. The conclusion is that the two groups had different perspectives about those arrangements. Drogoul and the Iraqi co-conspirators lied to the Italian BNL and Danieli officials, concealing the fact that Drogoul was providing cash to the Iraqis which they in turn used for advance payments and premium payments. Further, Drogoul falsely reported the existence of Iraqi cash collateral for letters of credit Drogoul issued for the two sales. BNL competed against other banks to be awarded this important Danieli business, neither BNL nor any of the other competing banks believed they would be assuming any Iraqi risk. In fact, as far as the Italians knew, the two Danieli contracts were prepaid in part by the Iraqi, secured by Iraqi cash collateral and/or SACE guaranteed.

In addition to this transaction there were numerous other instances whereby BNL officials in other countries learned of transactions Drogoul was handling on behalf of Iraq. In pursuing these leads, documents were reviewed, BNL officials who had contact with BNL-Atlanta employees were interviewed, and co-conspirators were interviewed regarding those instances of which they had knowledge. The results of inquiries into each of these instances found that Drogoul and his coconspirators had lied to the other BNL officials, and/or sent false reports concealing the unauthorized lending and the off-book operations.

CONCLUSION

Members of this Task Force have conducted the various, complex and, sometimes tedious investigations, in a professional and thorough manner. Their efforts resulted in the return of a 347-count indictment less than 19 months after the search of BNL-Atlanta. The indictment details the scheme to defraud that was perpetrated not only by employees of BNL-Atlanta, but by Iraqi government officials, by an officer with an exporting company, and by commercial entities controlled by those co-defendants. Thus far, four individuals and one corporation have entered guilty pleas as the result of that investigation. The strength of the investigation against the remaining defendant in the United States v. Drogoul case can be seen in the thousands of pages of documents and statements of witnesses and co-conspirators now cooperating with the government. Additionally, a guilty plea has been entered in a related investigation, by a corporation who has agreed to pay restitution to the United States government of more than \$8 million. Another guilty plea has been entered by an individual on charges arising from yet another related investigation.

The Task Force began their work in the same way other investigations begin. Beginning with sketchy information, the members started collecting evidence from various sources, pursuing leads and analyzing results. Over time the documents and testimonial evidence was assembled, providing a detailed understanding of what occurred at BNL-Atlanta. This process was time consuming as information was obtained from around the world.

The work of the BNL Task Force continues today, there are ongoing investigations into related matters identified in the course of the main investigation. As indicated previously, the investigation into possible complicity of others in the main case continues. As part of all of the ongoing investigations the cooperation of the various defendants is sought in the furtherance of those cases. This is contrary to the basic allegations that deals were made in order to silence people -- these cooperation agreements are sought to further the investigations through the obtaining of new evidence and leads.

Let it be understood that the Task Force is comprised of a number of professionals with varied backgrounds, experiences, skills and different political affiliations. Something that the critics have ignored when alleging cover up and improper political influence into the Task Force activities are common traits shared by these professionals -- independence and initiative. In short, no member of this group would have participated in a cover up. If something like that had occurred, it would have been brought to the appropriate government authorities and to the press.